

## Message Text

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 2068

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 7690

E.O. 11652: GDS

TAGS: ENRG PFOR EC

SUBJ: GULF-GOE NEGOTIATIONS

REF: QUITO 7617

1. LOCAL GULF MANAGER JACK O'BRIEN, GULF VICE PRESIDENT FOR FINANCE, PAT MCNAULTY, AND GULF ATTORNEY (AND MEMBER OF THE NEGOTIATING TEAM) EUGENE HARKINS CALLED ON AMBASSADOR OCTOBER 25 TO REPORT RESULTS OF O'BRIEN'S MEETING OCTOBER 23 WITH MINISTER OF FINANCE CESAR ROBALINO AND TO DISCUSS THE UPCOMING NEGOTIATIONS. (AMBASSADOR HAD SUGGESTED THAT O'BRIEN MEET WITH ROBALINO TO TRY TO DETERMINE WHAT ROLE IF ANY ROBALINO WOULD PLAY IN THE NEGOTIATIONS--SEE REFTEL.)

2. O'BRIEN SAID THAT DURING HIS MEETING WITH ROBALINO CONDITIONS WERE NOT "PROPITIOUS" FOR A DISCUSSION OF THE COMPOSITION OF THE NEGOTIATING GROUP (AND IMPLICITLY, VARGAS' CONTROL OF IT). O'BRIEN SAID HE DID MENTION, HOWEVER, CEPE'S DEBTS TO GULF (APPROXIMATELY \$1.8. MILLION) FOR INTERNAL CONSUMPTION SALES AND THE CENTRAL BANK'S OVERRETENTION OF GULF'S EXPORT DEPOSITS. O'BRIEN REPORTED THAT ROBALINO, WHO SEEMED SYMPATHETIC, ASKED HIM FOR A LIST OF CEPE'S OUTSTANDING DEBTS TO GULF AND TOLD HIM THE PROBLEM OF CENTRAL BANK OVERRETENTIONS WAS STILL UNDER REVIEW BY THE GOE.

3. WHEN O'BRIEN MENTIONED CEPE'S SUIT AGAINST TEXACO-GULF,  
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ROBALINO SAID HE WAS UNAWARE OF THE SUIT. (ROBALINO DID,

NEVERTHELESS, MAKE AN OBLIQUE REFERENCE TO THE AMBASSADOR'S ASSURANCE THAT GULF WOULD WITHDRAW THE SUIT AS SOON AS NEGOTIATIONS GOT UNDER WAY, BUT HE DID NOT PURSUE THE MATTER, O'BIREN REPORTED.)

4. O'BRIEN TOLD THE AMBASSADOR THAT GULF WAS PREPARED TO WITHDRAW THE ARCO SUIT UNCONDITIONALLY IF NECESSARY IN ACCORDANCE WITH THE AMBASSADOR'S ASSURANCE TO ROBALINO. O'BRIEN ADDED, HOWEVER, THAT GULF WOULD UNDERSTANDABLY PREFER THE SIMULTANEOUS WITHDRAWAL OF CEPE'S SUIT AGAINST TEXACO-GULF, AND THAT GULF BELIEVES WITHDRAWAL OF THE ARCO SUIT SHOULD NOT PREJUDICE IN ANY WAY A NEGOTIATED SETTLEMENT OF THE AMOUNT OF CRUDE IN DISPUTE UNDER PROVISIONS OF DECREE 285. AMABASSADOR AGREED WITH GULF OFFICIALS' SUGGESTION THAT GULF NOT BRING UP QUESTION OF ARCO SUIT UNTIL RAISED BY GOE. WHEN THE ARCO SUIT IS RAISED BY THE GOE, GULF WILL ASK THAT THE CEPE SUIT IN TURN BE WITHDRAWN AND EXPLAIN THAT WITHDRAWAL OF THE SUIT DOES NOT MEAN ACCEPTANCE OF CEPE'S CLAIMS UNDER DECREE 285.

5. MCNAULTY ALSO EXPLAINED THAT GULF WOULD BE WILLING TO HELP CEPE SECURE COMMERCIAL FINANCING FOR ITS OPERATING AND EXPLORATION EXPENSES AFTER GULF'S WITHDRAWAL. HE ADDED THAT CEPE WILL BE SHORT OF CASH AFTER THE FIRST OF THE YEAR AND GULF HAS A STRONG INTEREST IN ASSURING THE HEALTHY OPERATION OF THE CONSORTIUM, NAMELY, PAYMENTS IN CRUDE FOR GULF ASSETS. MCNAULTY SAID SEVERAL U.S. BANKS HAD ALREADY RESPONDED FAVORABLY TO GULF'S APPROACH. AMBASSADOR SUGGESTED THAT THIS PROPOSAL BE USED AS ONE OF GULF'S "CHIPS" LATER IN THE NEGOTIATIONS.

6. THRE HAVE BEEN SEVERAL REPORTS IN THE PRESS DURING THE PAST WEEK REGARDING THE GOE'S POSITION ON THE NEGOTIATIONS. COLONEL MIRANDA, CEPE MANAGER AND CHAIRMAN F THE INTER-INSTITUTIONAL COMMITTEE, TOLD THE PRESS THAT THE GOE HAS DECIDED TO NEGOTIATE THE PURCHASE OF THE PRODUCTION FACILITIES FIRST AND WILL LATER "DETERMINE THE DECISION TO BE ADOPTED REGARDING THE PIPELINE." HE MENTIONED THAT THE AMORTIZATION OF THE PIPELINE DATES FROM AUGUST 1972. MIRANDA MADE AN APPARENTLY SIGNIFICANT COMPARISON BETWEEN THE PRESENT NEGOTIATIONS

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AND THE 1974 PURCHASE OF CEPE'S 25 PERCENT SHAR IN THE TEXACO-GULF CONSORTIUM--SIGNIFICANT IN THAT IN 1974 THE GOE NOTIFIED TEXACO-GULF THAT CEPE WOULD BEGIN TO COLLECT ITS 25 PERCENT EVEN IF NO AGREEMENT HAD BEEN REACHED.

7. ON OCTOBER 24 LOCAL TEXACO MANAGER MIKE MARTINEZ TOLD THE EC COUNSELOR THAT MARTINEZ HAD LEARNED FROM A RELIABLE SOURCE--WHICH HE INDICATED WAS MINISTER ROBALINO--THAT THE GOE'S 11MEMBER NEGOTIATING COMMISSION WULD BE REDUCED TO

5 MEMBERS IN ORDER TO MAKE IT LESS UNWIELDY AND MORE BALANCED  
IN RELATION TO THE GULF'S 3-MEMBER TEAM.  
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